

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON IN-STATE ENERGY

January 31, 2013

7:31 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator John Coghill, Co-Chair
Senator Peter Micciche
Senator Dennis Egan
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Giessel

COMMITTEE CALENDAR

PRESENTATION: ALASKA INDUSTRIAL DEVELOPMENT (AIDEA) OVERVIEW OF
FAIRBANKS GAS TRUCKING PROJECT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MARK DAVIS, Deputy Director
Infrastructure Development
Alaska Industrial Development and Export Authority
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of the Fairbanks
Liquid Natural Gas Trucking Project.

NICK SZYMONIAK, Project Economist
Alaska Energy Authority
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of the Fairbanks
Liquid Natural Gas Trucking Project.

TED LEONARD, Executive Director
Alaska Industrial Development and Export Authority
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of the Fairbanks Liquid Natural Gas Trucking Project.

ACTION NARRATIVE

[7:31:00 AM](#)

CO-CHAIR CLICK BISHOP called the Senate Special Committee on In-State Energy meeting to order at 7:31 a.m. Present at the call to order were Senators Micciche, Egan, Co-Chair Coghill, and Co-Chair Bishop. Co-Chair Bishop welcomed Senator Giessel and asked her to join the committee.

**Presentation: Alaska Industrial Development and Export Authority
Overview of Fairbanks Gas Trucking Project**

[7:31:55 AM](#)

CO-CHAIR BISHOP introduced the overview for the Liquefied Natural Gas (LNG) Project regarding production, distribution, and financing. He noted that Interior Alaska referred to the LNG Project as the Interior Gas Trucking Project and was inclusive of the Rural Interior River Systems for propane distribution.

[7:32:35 AM](#)

MARK DAVIS, Deputy Director, Infrastructure Development, Alaska Industrial Development and Export Authority (AIDEA), said SB 23, the Governor's bill, had two components: allowing AIDEA to do direct project financing and the Governor's Interior Alaska Gas Plan (IAGP). He explained that AIDEA was currently required by law to own 100 percent of a project or own a project in conjunction with other investors. He explained that it would be best if AIDEA provided financing for certain projects that were not owned by AIDEA for long periods of time. He noted that a slight modification was made to AS 44.88.172(a) to allow AIDEA to do direct financing.

MR. DAVIS said the Governor's IAGP was designed to work with a number of components as follows:

- Gas storage credits, passed during last session by the legislature.
- Appropriation request, a onetime appropriation of \$50 million which would go to AIDEA.

- Recapitalization of the Sustainable Energy and Transmission Supply Fund (SETS), an element of SB 25 that passed during last session by the legislature that would be used as a loan to the project
- Authorization for AIDEA to issue \$150 million worth of bonds.

MR. DAVIS said the Governor's comprehensive package added up to approximately \$355 million and was made up of several components with one component already in place.

[7:34:41 AM](#)

He explained the LNG Project goals as follows:

- Provide the lowest cost energy to most Alaska consumers in the Interior.
- Get gas first to Interior Alaska while assuring long-term access to gas from liquefaction plant for all Alaskans
- Utilize private sector mechanisms as much as possible.

CO-CHAIR BISHOP announced that Senator Wielechowski joined the committee meeting.

MR. DAVIS explained the AIDEA Development Project Analysis & Decision Making Process as follows:

SB 23 in the Interior gas plan is going to work in conjunction with AIDEA's normal decision making process. SB 23 is asking for:

- Appropriation.
- Recapitalization of SETS.
- Bond authorization to use in conjunction with the Governor's gas storage credits as a unit.

AIDEA will apply this process to make sure it works via:

- Feasibility analysis.
- Deal structuring analysis.
- Put together the final deal.

MR. DAVIS said requests were issued in December for interest from firms that might be willing to work within the AIDEA

Development Project Analysis & Decision Making Process and work with the AIGP. He said AIDEA was pleased to announce that 16 Letters of Interest (LOI) were received from the request. He noted that AIDEA was reviewing the LOI to see what had been offered and what would fit within the process.

He said the goal was to lower energy costs by using the North Slope's LNG and trucking it to the Fairbanks area. He said AIDEA's LNG trucking project was being done in conjunction with the Alaska Energy Authority (AEA). He explained that AEA had provided AIDEA with the following data:

Key Assumptions:

- 9 Billion cubic feet (Bcf) plant.
- LNG plant bifurcated into two sections (industry and utility).
- \$50 million capital cost reduction applied to the 4.5 Bcf utility section.
- Re-gas, storage, and distribution costs are presented as a range.

MR. DAVIS said the 9 Bcf plant was relatively small. He explained that the \$50 million appropriation from SB 23 would be placed into the utility-side of financing the LNG plant in order to keep the cost as low as possible. He noted that AIDEA had a regulatory lawyer on staff to address regulatory issues of how the deal would be structured.

He announced that there was good news from AEA on pricing as follows:

Expected Utility Price per thousand cubic feet (Mcf):

- Wholesale LNG: \$10.33.
- Natural Gas to Home: \$13.49-\$17.29

He noted a chart that showed a 40 percent reduction in Fairbank's heating costs with natural gas versus fuel oil.

SENATOR WIELECHOWSKI asked what the total cost was for the LNG plant, the cost breakdown for state's portion, and the bond amount.

MR. DAVIS answered that the Governor's IAGP was made up of the following components:

- Gas storage credits that was passed last session.

- Appropriation request for \$50 million in SB 23
- Recapitalization for \$125 million of the SETS Fund that was made available from SB25 during last session as a loan to the project.
- \$150 million in bonding to AIDEA.

SENATOR WIELECHOWSKI asked Mr. Davis to explain the \$125 million recapitalization and the \$50 million appropriation.

MR. DAVIS responded that financing would be as follows:

- \$50 million one-time appropriation to AIDEA from general funds.
- \$150 million authorization for AIDEA to issue bonds because if AIDEA issues bonds over a certain limit, it must seek legislative authority.
- Appropriation to recapitalize the SETS Fund at \$125 million and that, according the Governor's Gas Plan, would be loaned to the project at 3 percent.

SENATOR WIELECHOWSKI asked if that \$50 million was out of the general fund and the rest was picked up through other bonding sources.

MR. DAVIS answered yes.

He addressed the LNG project description as follows:

- Natural gas will be liquefied on the North Slope and trucked to Interior Alaska.
- Primary LNG demand anticipated to be Fairbanks and North Pole.
- LNG will be temporarily stored and re-gasified in Interior Alaska.
- Natural gas distribution system with storage to supply natural gas for heating.

He emphasized that the Governor's IAGP was anticipated to build out distribution. He explained that the plan was not strictly about building an LNG plant, but a complete integrated system would be provided. He said the plan would create the gas, truck the gas, and distribute the gas.

CO-CHAIR BISHOP said he would provide the committee with a copy of financing build-out from the Governor's IAGP that was submitted in December, 2012. He noted that the Governor's report showed the funding sources more clearly.

MR DAVIS explained a diagram on the LNG-Supply-Chain. He said the re-gasified LNG could be used as gas in space heating, electricity, and industrial usage. He said there would be liquids in the gas and AIDEA would attempt to capitalize on the liquids by selling propane and other types that were usable on the North Slope.

SENATOR WIELECHOWSKI asked what the expected price would be for purchasing North Slope gas.

MR. DAVIS answered that AIDEA did not have an exact price.

He said AIDEA's 16 LOI for participation included the following:

- Two turnkey offers: Golden Valley Electric Association (GVEA) and Pentex Alaska Natural Gas Co., the parent company of Fairbanks Natural Gas (FNG). Both of those companies indicate that they have contracts in place with producers, but AIDEA has not engaged in discussions with them at level of determining exactly what those contracts say.

SENATOR MICCICHE asked what the LNG plant's daily capacity was.

MR. DAVIS answered 9 Bcf.

SENATOR MICCICHE asked for the plant's daily capacity.

MR. DAVIS replied that he would get back to Senator Micciche on the LNG plant's daily capacity.

SENATOR WIELECHOWSKI addressed the "Natural Gas to Home" price range that Mr. Davis noted of: \$13.49-\$17.29. He asked what producer-price was used to calculate the price range.

MR. DAVIS answered that he assumed the price range from the producer was \$2.00 to \$3.00. He noted that the price range was an estimate and the actual price was not known.

SENATOR WIELECHOWSKI stated that he was told that gas was selling on the North Slope for \$4.00.

MR. DAVIS answered that he did not know the North Slope gas prices.

SENATOR WIELECHOWSKI asked if it was possible for a more detailed breakdown of tariffs, cost of gas, and trucking costs.

MR. DAVIS replied that the assumption for trucking was \$4.00.

CO-CHAIR COGHILL commented that there was a slide at the end of Mr. Davis' presentation that addressed more detailed costs. He asked if AEA's economist could address costs.

CO-CHAIR BISHOP asked Mr. Szymoniak if he had the daily capacity number for the LNG plant.

NICK SZYMONIAK, Project Economist, Alaska Energy Authority, Anchorage, responded that he would calculate the LNG plant's daily capacity.

CO-CHAIR BISHOP asked Mr. Davis to continue the presentation.

MR. DAVIS introduced the AEA and AIDEA project team as follows:

AEA:

- Gene Therriault: Deputy Director, State Energy Policy Development.
- Kirk Warren: Technical Engineer.
- Nick Szymoniak: Project Economist.

AIDEA:

- Mark Davis: Deputy Director, Infrastructure Development.
- Jim Strandberg: Energy Development Finance Officer.

MR. DAVIS addressed the Collaboration Structure between AEA and AIDEA as follows:

AEA is leading the policy development of the project:

- Ensure that project goals are defined and consistent with the public interest.
- Engage the public, industry, and elected officials.

AIDEA is developing the financing of the project:

- Examine finance options and commercial structure in collaboration with private party participants.
- Utilize available finance tools to meet project goals.

MR. DAVIS addressed the project's "expert consultation" as follows:

Engineering consultant:

- LNG expert hiring by January 31.
- Provide technical project support.

Project management consultant:

- Anticipate hiring in February.

Financial consultant:

- Mark Gardiner of Western Financial Group.
- Retained in November.

MR. DAVIS noted that AIDEA hired experts on a project by project basis. He said a Request For Proposal (RFP) had been issued for LNG engineering consultants and AIDEA was reviewing responses.

CO-CHAIR BISHOP asked Mr. Davis to alert the committee when AIDEA awards the engineering RFP.

MR. DAVIS answered yes. He noted that the AIDEA Procurement Committee was meeting next week to make its selection. He added that AIDEA was in the process of putting out an RFP for a project management consultant to oversee the entire process going forward to make sure it made sense. He said AIDEA was in the project development and analysis phase. He explained that the intent was to have its experts acknowledge if the LNG plant was feasible with the proposed money and whether wholesale LNG could be delivered to Fairbank at \$10.00 Mcf.

CO-CHAIR BISHOP asked when the committee would know what Mr. Davis had just described.

MR. DAVIS replied that the information would be put before the AIDEA Board of Directors in a public forum.

CO-CHAIR BISHOP asked if Mr. Davis had a timeline.

MR. DAVIS answered that he would reveal the timeline at the end of his presentation.

He explained the financing options for the North Slope LNG plant as follows:

LNG Plant Finance Sources:

- Storage Credit: \$15 million.
- General Fund Grant: \$50 million.
- AIDEA SETS Loan: \$125 million.
- Other Financing: \$30 million.
- Plant Total: \$220 million.

He noted that "other financing" would be from the private sector. He explained that the Governor wanted the project to work with the private side. He said AIDEA had \$50 million in general funds (GF) and the rest was in the form of loans or AIDEA sourcing other capital. He noted that the 16 LOI were potential financing participants.

CO-CHAIR BISHOP asked if private equity groups had shown interest.

MR. DAVIS answered yes. He noted that additional interest was shown by a bank and a financial consortium, a form of investment bank and arm of a charter bank.

SENATOR WIELECHOWSKI addressed the LNG plant's bifurcation for industry and utility usage. He asked what industries AIDEA envisioned for the LNG. He inquired if the industry [sector] would possibly pick-up the "other financing" of \$30 million or more.

MR. DAVIS answered that "other financing" would need to be parsed out. He said the Governor's goal was to work with private capital for the project.

He addressed LNG utility and industrial sales. He said AIDEA would procure a "regulated sale" to a utility to achieve the Governor's goal of providing the consumer with the best possible price. He added that commercial-priced sales to industrial accounts would help defray the debt service on the entire project.

SENATOR WIELECHOWSKI asked if AIDEA envisioned selling on the North Slope, Interior Alaska, or shipping via barges.

MR. DAVIS answered that some of the liquids that would be stripped off of the gas could be sold on the North Slope. He said propane that was generated from the LNG process could be sold throughout the Interior. He addressed the possibility of selling LNG to other commercial users that would not be in the Fairbanks area.

CO-CHAIR COGHILL addressed industrial anchor-purchasers as Golden Valley for electricity production and two refineries. He explained that the refineries were using high cost oil in their refining operations that could be replaced. He noted that hospitals and big-box stores would also be possible commercial purchasers. He said home heating would be the smallest unit users for the build-out.

[7:50:44 AM](#)

SENATOR WIELECHOWSKI asked what AIDEA projected as the total amount of gas available for the Interior.

MR. SZYMONIAK answered that some designs had been reviewed for a space heating load to homes and businesses at 9 to 11 Bcf. He explained that industrial load and refineries would be 9 to 11 Bcf. He said the total would be 18 to 20 Bcf.

TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), said the LNG Plant was originally designed for 9 Bcf with the ability to expand up to 20 Bcf. He disclosed that the full build-out was currently projected for high and medium density users in the Fairbanks area with the industrial sector being approximately 14 Bcf. He noted that expanded distribution to the Interior would increase the number to 20 Bcf.

SENATOR WIELECHOWSKI asked if the LNG production projects were for both industrial and utility usage.

MR. LEONARD answered that he believed the total build-out would be 20 Bcf. He said bifurcation would be evenly divided between industry and utility usage. He addressed potential industrial development would include the North Slope and the transportation section to develop LNG use in trucks. He noted that FNG had purchased several LNG propelled trucks for transportation between Port MacKenzie and Fairbanks. He explained that LNG usage would expand quickly in Fairbanks and the Northwest Arctic Borough in replacing diesel fuel with LNG in powering mining operations.

[7:54:42 AM](#)

MR. DAVIS stated that there would be industrial sales and regulated sales, but some of the users that Senator Coghill referenced would actually be regulated sales. He explained that LNG sales to Golden Valley would be regulated by the Regulatory Commission of Alaska (RCA). He said AIDEA was in preliminary negotiations with other industrial users that would include the Ambler mining district, [located in the Northwest Arctic Borough]. He explained that the mining operators' diesel generator-sets could be designed to convert to propane. He said there were many potential long term LNG users via pipeline or trucking. He stated that the cost of trucking from Fairbanks to outer areas was not that much of an increment [per Mcf of gas]. He reiterated that the cost to truck outside of Fairbanks was \$4.00 per Mcf.

CO-CHAIR BISHOP summarized that the more gas sold would ultimately decrease the prices for the individual user at the burner-tip. He noted Fairbanks' air quality problem with fine Particulate Matter (PM) that was smaller than 2.5 microns in diameter (PM2.5). He said the Department of Environmental Conservation (DEC) told him that the use of natural gas would lower the PM2.5 problem in Fairbanks. He noted that there was a lot of LNG trucking projects that would be successful prior to pipeline possibilities. He said Tower Hill Mining and the [Ambler Mining District] were examples of potential big industrial users for LNG truck-gas projects. He cited two paper mills in Maine that were devastated by high energy costs that successfully transitioned to LNG truck-gas and saved jobs. He asked Mr. Davis if more gas volume meant lower costs.

MR. DAVIS answered yes. He said the LNG plant and trucking operations would need to reach optimal sizes. He explained that Economies of Scale (EOS) could be achieved. He said he agreed with the DEC Commissioner that the Environmental Protection Agency's PM2.5 designations would affect industrial users to shift to natural gas and away from diesel generator-sets.

[7:57:56 AM](#)

SENATOR MICCICHE stated that Alaska was 40 years behind in trucking LNG. He addressed the example of the paper mills converting to LNG truck-gas in Maine and noted that the LNG was delivered from a large-scale operation in [Everett, Massachusetts]. He said AIDEA's LNG facility was a small-scale operation that would not have the capacity for the uses that were previously mentioned to the committee. He noted that the current funding package would not meet the overall needs. He

addressed the theory that selling more gas equated to lower pricing and noted that it would only work with negotiated prices from the North Slope. He said the rest of the system would not benefit from EOS. He added that the truck-gas system for a small-scale facility was labor intensive.

SENATOR MICCICHE asked Mr. Davis to address the scope of the LNG facility and inquired if depropanized or lean-gas would be purchased from the supplier.

MR. DAVIS answered that the gas would be purchased as-is from the North Slope. He explained that the contracts had not been examined that were in place between the two turnkey offers. He said he expected that [depropanizing] would be addressed in the contracts.

SENATOR MICCICHE replied that the differences between depropanized and lean-gas would dramatically affect pricing.

MR. DAVIS responded that an LNG engineer and lawyers were engaged to review the contracts and delve into the details. He said the goal was to achieve the best price and least cost that was consistent with what the commercial sector would sell.

SENATOR MICCICHE asked if FNG would continue running the plant at Point MacKenzie to meet the additional need.

[8:00:37 AM](#)

MR. DAVIS responded that he did not know and noted that FNG would have to decide based upon their business plan. He stated that AIDEA was not trying to compete against any existing company and noted that the intent was to present a plan for the Interior. He disclosed that AIDEA had been in contact with FNG regarding their new natural gas powered trucks that would haul LNG. He said he agreed with Senator Micciche that Alaska was behind in LNG trucking and was interested in knowing how FNG's trucks operated.

He addressed Senator Micciche's comments regarding EOS and noted that financial EOS could be achieved from proper plant size and the amount of financing required, but not from an engineering perspective.

MR. LEONARD explained that AIDEA believed that the Governor's financial package would set the core of the LNG plant. He explained that the LNG plant was 9 Bcf with the ability to expand in increments of 2 Bcf. He said AIDEA believed that the

LNG plant and distribution system would allow for the market to finance incremental Bcf increases up to the 20 Bcf maximum. He stated that one of the proposed contracts had indicated LNG interest for up to 20 Bcf for 20 years and another party proposed a 15 year contract for 14 to 16 Bcf. He said he had a discussion with Senator Coghill in 2012 regarding fixed gas pricing [from the producer] and pricing was in the \$2.00 to \$3.00 range. He noted that an analysis was required with a confidential-shield to be able to see the actual numbers. He explained that one of the parts from the analysis would include a demand-review if a pipeline came to fruition by 2020 to ensure the plant continued to have demand after completion. He said a company would be hired to provide detailed economic and demand-analysis to provide a full picture for financing purposes.

[8:03:57 AM](#)

MR. DAVIS addressed financing and noted that the first people that finance the LNG project would ask for a higher rate of return due to risk. He said once a project becomes operational with cash flow with a track history, a better rate could be attained. He explained that obtaining a better rate was similar to refinancing a home mortgage where payment schedule and equity levels were reviewed in order to obtain a lower interest rate. He said lowering interest rates over time was typical for expanding industrial sites.

SENATOR WIELECHOWSKI asked if there was consideration to make LNG available to South Central utilities due to the region's concern of running out of natural gas.

MR. DAVIS responded that AIDEA had not looked at supplying South Central. He said a delivered price to South Central could be calculated once actual pricing and trucking costs were obtained.

SENATOR WIELECHOWSKI commented that whenever gas pipelines were discussed in the past, a "postage stamp" rate was typically addressed where everyone paid the price. He asked Mr. Davis if he envisioned a "postage stamp" rate.

MR. DAVIS answered that parts of the system would come under the jurisdiction of the RCA. He said the RCA would try to achieve a uniform price for similar customers.

SENATOR MICCICHE addressed the challenges of offering a "postage stamp" rate for delivering gas via truck versus a pipeline. He stated that there was a need to focus on the fact that the proposed LNG plant did not have a lot of capacity. He explained

that offering excess product for other areas would be difficult to achieve. He noted that the proposed LNG plant was exciting, but admitted that there was a lot to learn before the project's cost, deliverable amount, and excess availability was known.

8:06:16 AM

MR. DAVIS responded that AIDEA was at the project analysis and decision making phase. He said AIDEA believed that the Governor's IAGP was a good plan and noted that SB 23 was not designed to start building the LNG project. He said SB 23 would put the right tools in place to allow the IAGP to be analyzed in order to determine feasibility for a 9 Bcf LNG plant, delivered pricing to Fairbanks, and possible residual uses for: residential heating, industrial gas conversion, and mining operations. He said the analysis would review all potential gas markets and the projected effects on a 15 or 30 year plant amortization plans.

He explained that SB 23 would request authorization to charge for a 3 percent loan under the SETS program. He explained that SETS was currently set by statute to be market-indexed with an interest rate of 5 to 6 percent. He noted that a 3 percent loan would only add \$1.00 per Bcf and not hurt consumers. He pointed out that a 3 percent interest rate would inflation-proof the state's loan if inflation remained at current levels over the next ten years. He addressed the possibility for plant expansion and noted that the facility could be expanded up to 20 Bcf. He said the LNG plant would have residual uses if a gas pipeline was built.

8:09:48 AM

CO-CHAIR BISHOP asked if potential markets in Canada's Yukon Territory and Southeast Alaska were considered.

MR. DAVIS replied that once Fairbanks' needs for natural gas were supplied profitably, expansion possibilities could be considered for other markets if EOS was achieved. He noted that EOS could also be pecuniary or financial in nature too. He explained that technical EOS was difficult to achieve through production.

SENATOR MICCICHE addressed the 30 year amortizing analysis and noted that consideration should be given to large-scale LNG trucking for fleets of semi-trucks that run on LNG. He noted that should a pipeline be built, an analysis should be done on the cost of moving a plant to a location that had infrastructure powered by LNG. He noted that LNG trucking from the North Slope

would no longer be necessary, but it would be interesting to find out if an LNG fuel system would be available for the long-term after a pipeline was erected.

MR. DAVIS replied that the LNG plant would be moveable by semi-tractor trailer. He explained that part of AIDEA's business plan anticipated moving the LNG plant.

SENATOR MICCICHE remarked that the proposed LNG would be similar in size to T. Boone Pickens' Clean Energy Company (CEC) LNG plants. He noted that California was using a lot of LNG for long distance trucking from CEC's California facility.

MR. DAVIS replied that AIDEA was asking for the same type of LNG plant as CEC's California facility. He noted that the long-term residual use for the proposed LNG plant was its ability to be moved should a pipeline be constructed. He explained that the LNG plant could be moved to another natural gas source.

[8:12:57 AM](#)

SENATOR WIELECHOWSKI agreed with Senator Micciche that analysis should be provided on the LNG plant's residual use to avoid obsolescence. He asked if analysis had been done on a comparison between LNG and the Susitna-Watana Hydroelectric project.

MR. DAVIS answered that he was not aware of a report that compared LNG to Susitna-Watana.

MR. SZYMONIAK replied that the Alaska Energy Authority (AEA) had not specifically looked at a comparison between trucking LNG and Susitna-Watana. He said AEA was looking at an analysis of supplying Fairbanks with electric based heat.

CO-CHAIR BISHOP commented that a proposed dam was considered in the Fairbanks region call the Rampart Dam project [in the 1950's and 1960's]. He said new homes with electric based heat were built in anticipation, but the Rampart Dam was never built.

CO-CHAIR COGHILL stated that he wanted the Susitna-Watana Dam to come on-line. He said the proposed dam may not help his Fairbanks based industrial users and noted that it was critical to provide them with natural gas. He explained that the Susitna-Watana Dam was not scheduled to come on-line until 2025 and Fairbanks' two refineries and existing power generation required a power [rate] drop as soon as possible.

MR. DAVIS responded that the Governor's IAGP was designed to be complementary with the Susitna-Watana Dam and was the reason for the joint policy effort between AIDEA and AEA. He noted that AIDEA was also monitoring the Alaska Stand Alone Gas Pipeline (ASAP) Project in order for financiers to address the LNG plant's residual value when additional energy projects come on-line.

[8:15:45 AM](#)

MR. DAVIS addressed the Project Finance Overview as follows:

- \$325 million for project in Governor's finance plan.
- AIDEA financing can be applied to different parts of the LNG supply chain.
- AIDEA will use this finance package to leverage private investment.

He said \$325 million was in SB 23 and \$30 million in gas tax credits that the Governor put in place for use last year. He said AIDEA would apply to finance "in pieces" throughout the supply chain to achieve the best cost with the intent to reduce the financial debt on the LNG project. He explained that achieving good gas prices was based upon what was paid to the natural gas supplier and how much was paid for the infrastructure required to produce the LNG. He said the intent was to reduce the infrastructure debt to the lowest possible point.

He addressed the Governor's "finance package" as follows:

- \$50 million General Fund appropriation:
 - Directly reduces the cost of LNG.
- \$150 million AIDEA bonds:
 - 3 percent interest rate (projected rate based on current market rates.)
- \$125 million SETS capitalization:
 - 3 percent interest rate.
 - Flexibility to provide optimal commercial structure.

- \$325 million total package.
- \$30 million natural gas storage credit:
 - \$15 million tax credit per qualifying storage tank.
 - Created through previous legislative action.

He said the Governor's finance package would be set forth from SB 23.

[8:16:59 AM](#)

CO-CHAIR BISHOP called an at-ease.

[8:17:25 AM](#)

CO-CHAIR BISHOP called the committee back to order.

SENATOR WIELECHOWSKI asked if \$325 million was the total cost of the project and the cost of the liquefaction plant was included.

MR. LEONARD answered that the current estimate for the project was \$220 million for a 9 Bcf plant and \$20 million for each 2 Bcf production increase.

MR. SZYMONIAK remarked that a 4.5 Bcf incremental increase would be approximately \$50 million and a bit less for a 3 Bcf increase.

MR. LEONARD said the initial LNG plant would be \$220 million and the distribution system would be initiated for an additional \$200 million for the first phase. He summarized that the first phase would be approximately \$400 million and the total [project] cost would be approximately \$800 million with the distribution.

He noted that a LNG trucking feasibility study was done approximately three years ago. He said an LNG trucking program was dependent on oil pricing being above \$60 per barrel, included industrial-based demand, and had the ability to build-out demand. He explained that demand and production had to be financed in tandem.

[8:22:04 AM](#)

MR. DAVIS said bond covenants that identified gas sources would be required to issue bonds. He said bonds were necessary to

finance a good distribution system and noted that SB 23 was a comprehensive plan.

SENATOR MICCICHE reiterated that AIDEA did not know if the gas coming to the plant was depropanized. He explained that 50 trucks would be required to deliver LNG when the plant was at full capacity and additional vaporization would be required in the Fairbanks area. He asked if everything he noted was included in the request for financing.

MR. LEONARD replied that the LNG plant would produce propane and it would be stripped out at the facility. He explained that the LNG plant would produce approximately 10,000 gallons of propane per day. He said the gas would be purchased with contained liquids.

MR. DAVIS explained that he was a lawyer and focused on contractual language. He noted that he was reluctant to share information until he had read the contracts. He stated that he assumed propane would be available to sell from the LNG plant.

CO-CHAIR BISHOP declared that the day's topic was on financing and a high-project overview. He said as the LNG project progressed, the committee would bring the appropriate experts forward. He addressed his background in trucking and noted that the LNG trucking from the North Slope was not an issue. He disclosed that a major trucking company claimed that capital assistance was not required to finance equipment.

MR. DAVIS commented that he had assisted AIDEA five years ago to analyze LNG trucking from the North Slope. He said prices had changed since the analysis, but noted that the analysis concluded that trucking was very probable without a requirement for cash infusion.

SENATOR MICCICHE addressed the financing package and reiterated that the actual costs were not known. He said he was looking forward to acquiring additional financing information as the project developed.

MR. DAVIS replied that the Governor's IAGP was designed to work with the private sector and AIDEA was looking for an infusion of private capital. He cited SB 23 as the tool needed to work with the private sector.

SENATOR WIELECHOWSKI recounted that trucking would cost \$2.00 to \$3.00 per Mcf and commented that he perceived the cost as being

high. He asked Mr. Leonard to provide additional details on the trucking costs. He noted that the overall project cost was declared to be \$800 million when it was previously reported to be \$325 million and asked that the difference be addressed. He referred to the request for \$50 million from the General Funds and asked if AIDEA would return next year to request for additional appropriations.

[8:27:18 AM](#)

MR. LEONARD answered that the \$325 million plus \$30 million in credits for storage tanks would create an LNG program that met high and medium density demand in Fairbanks. He said added costs would be realized when added demand required capital for expansion. He explained that a 20 Bcf LNG plant would ultimately require \$800 million. He remarked that an established core-LNG program would leverage private sector financing for expansion. He said the goal of SB 23 was to get the first LNG system in and get gas to the Interior as quickly as possible. He explained that expansion would be addressed with the legislature and private sector financing after the initial LNG system was in place.

CO-CHAIR COGHILL advised the committee that the \$800 million noted by Mr. Leonard was a "what if" number. He said the \$325 million was to get the industrial use and immediate build-out use in the highest density area in Fairbanks. He said the initial build-out would have a huge impact on the Fairbanks area and explained that Fairbanks' regional refineries were as stressed as the home owners. He said Eielson Air Force Base (EAFB) was dependent on the refineries for their flying fuel and the refineries contributed to EAFB's economic stress. He said the LNG project would have a beneficial cascading effect that was larger than strictly home heating, but he stated that home heating was essential. He said the \$800 million was the potential scope that would most likely be filled by a pipeline.

[8:31:49 AM](#)

MR. DAVIS addressed Senator Wielechowski's question if AIDEA would come back to the legislature next year to request additional funding. He stated that AIDEA would not come back with a request next year. He said the Governor's IAGP would provide a way to start the LNG distribution, design for its long term development, and anticipate changes that would require the plant to be moved. He said the business plan would say that AIDEA would be off and running if SB 23 passed. He explained that the analysis process would dictate if the project should proceed.

CO-CHAIR BISHOP summarized that the \$800 million was a full build-out with private equity taking the balance after the initial \$355 million financing plan from the state.

MR. DAVIS answered correct. He explained that the \$30 million in storage credits was obtained last year by the Governor. He noted that the \$50 million appropriation from General Funds would only be spent if AIDEA decided to go forward with the project. He said the \$125 million was a loan that should go back to the Treasury and \$150 million in bonds would come back to AIDEA.

CO-CHAIR BISHOP asserted that the payback would be similar to the DeLong Mountain Road to the Red Dog Mine site.

MR. DAVIS answered correct. He said AIDEA was in the business of making a return and then hopefully paying the legislature a dividend from the return.

SENATOR MICCICHE explained the home owner typically covered the cost in a Utility Special Assessment District (USAD) and that was what kept the costs somewhat manageable for those putting a project forward. He asked if USAD was the vision on getting distribution to individual subdivisions and homes.

[8:34:40 AM](#)

MR. DAVIS answered correct. He said Alaska allowed for Local Improvement Districts (LID) and noted that LID was used to supply gas to Girdwood. He disclosed that AIDEA was considering what other states had done that allowed improvements to run with a reality via property tax inclusion. He noted that AIDEA hired a consultant with property taxation experience for improvement projects. He said AIDEA would like the homeowner to be able to afford any added taxes. He mentioned the Governor's IAGP intent was to make pricing affordable to consumers in Fairbanks and address their plight over high fuel costs.

SENATOR MICCICHE stated that one of three primary reasons why he was in the committee and legislature was his dream for a natural gas fueled economy through the populated areas of Alaska. He emphasized that there were a lot of ways to achieve a natural gas fueled economy and he appreciated the work done by AIDEA. He stressed that he wanted the best option for Alaskans. He said Alaska had a relatively endless supply of natural gas that could fuel utility uses for home heating and power the vehicles that delivered goods throughout the state.

[8:36:31 AM](#)

MR. DAVIS said AIDEA appreciated Senator Micciche's comments.

CO-CHAIR BISHOP noted that there were economic benefits that were yet to be realized if the LNG project came along. He said he would share one hard number for AIDEA to consider. He addressed a recent conversation with a school superintendent whose district was spending \$9 million per year for heating. He stated that cutting heating costs by 40 percent would free up more money for school districts. He noted that everyone was aware of the impending budget constraints that the state would face. He said cheaper energy would solve a lot of problems.

MR. DAVIS replied that AIDEA was working on another gas distribution project for an undisclosed city and school district. He noted that energy cost could be reduced by 50 percent.

MR. LEONARD stated that one of the first things any business or private sector organization would look at was their cost of energy and its stability. He noted that mining operations look at cost as a major component of their decision to go forward.

MR. DAVIS referred to a discussion he had with a CEO from a mining company and his first question pertained to energy costs. He said the CEO asked if the proposed LNG plant could be moved to another source to assist mining operations. He explained that one of the problems with developing mines was access to power. He addressed AIDEA's business plan was to anticipate LNG uses.

[8:39:15 AM](#)

SENATOR MICCICHE addressed Mr. Davis' comment and noted that the state had helped with a gas-line to Homer in his district. He said the savings to the Kenai Peninsula Borough (KPB) for public-building heating would be approximately \$2 million per year. He noted that KPB residents who were not receiving natural gas would realize indirect savings in property taxes due to KPB's lowered cost in maintaining infrastructure. He said natural gas would have an overall incremental benefit to everyone. He addressed individuals who would never directly receive natural gas and pointed out that their electricity might be generated by natural gas. He referenced to his dream for a statewide build-out for natural gas that would eventually provide for substantial savings to everyone.

MR. DAVIS addressed the LNG project's schedules and milestones and noted that SB 23's passage would put AIDEA in a position by August to provide the AIDEA Board with recommendations.

CO-CHAIR BISHOP asked what the target date was to choose a recipient from the 16 LOI that AIDEA received.

MR. DAVIS replied that an initial analysis was recently completed and selection was being refined down to a smaller group. He said a project manager and engineer would be hired to assist in working the selection down to four or five candidates within two weeks.

SENATOR WIELECHOWSKI asked about the \$3.00 to \$4.00 trucking tariff and the timeline for getting gas to Fairbanks.

[8:41:47 AM](#)

MR. SZYMONIAK answered that the cost of trucking was \$4.00.

MR. DAVIS said the \$4.00 trucking cost was used as a "place marker." He recounted a previous LNG trucking analysis that showed that the project would work if oil stayed above \$60 per barrel and the project's build-out costs were kept low. He addressed financing for LNG trucking and referenced Senator Bishop's statement that trucking companies would actually be hired and expensed rather than adding equity-debt to the project. He explained that a business structure should be created for the special-purpose-vehicle that owned the LNG plant to capture the federal tax expenses to the partners that put up the capital that does not allow flow-back to AIDEA. He noted that one of AIDEA's jobs, as with the [Cook Inlet] jack-up rigs, was to develop a business structure that was most beneficial.

[8:43:15 AM](#)

MR. LEONARD replied to Senator Wielechowski's question regarding the 16 LOI. He explained that there were two turnkey proposals with some having [specific] interest in financing or engineering. He said one turnkey proposal projected gas availability in Fairbanks by 2015.

CO-CHAIR COGHILL stated that he knew at least two turnkey proposals had obtained permits with engineering and many of the operational issues were addressed. He said there may be the perception that permitting would still have to be resolved and noted that the turnkey proposals had many of the permits accomplished with the proper economics.

MR. DAVIS replied that with the direction of the Governor's office, AIDEA was in consultation with the Department of Natural Resources (DNR) regarding large permitting to address costs, timing, and evaluation in toto.

MR. LEONARD addressed Senator Wielechowski's question on the \$4.00 trucking rate. He said the two turnkey operations had based trucking rates on FNG's current gas transportation costs from Port MacKenzie to Fairbanks.

He stated that the Governor's goal for AIDEA was to ensure that the private sector was involved as much as possible in the LNG project. He explained the advantage of having the private sector look at the LNG project to indicate whether it made sense to move forward.

[8:45:53 AM](#)

SENATOR MICCICHE asked if the storage tanks were over 72,000 gallons. He noted that tanks over 72,000 gallons changed the permitting and regulations structure.

MR. DAVIS replied that the storage tank size question had not been answered. He agreed that storage tank size had an impact on permitting.

CO-CHAIR BISHOP explained that when AIDEA returned to the committee to address the LNG project's mechanics, the importance of having storage tanks in July would be revealed.

CO-CHAIR COGHILL asked when AIDEA would return to report to the committee and review upcoming project evaluations.

MR. DAVIS responded that AIDEA would return with an update in approximately three weeks. He said once the engineering firm was hired, AIDEA would ask questions that were submitted by the committee. He noted that AIDEA would ask FNG how their LNG truck program was working.

CO-CHAIR BISHOP noted that Commissioner Susan Bell from the Department of Commerce, Community, and Economic Development (DCCED) was attending the committee meeting. He said DCCED was equally interested in the LNG project.

[8:48:21 AM](#)

There being no further business to come before the Senate Special Committee on In-State Energy, Co-Chair Bishop adjourned the meeting at 8:48 a.m.